

Message Text

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E. O. 11652: GDS

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SUBJ: NIXON/ TANAKA SUMMIT BACKGROUND PAPER VII: AID

SUMMARY: JAPANESE AID HAS BEEN CHARACTERIZED IN RECENT YEARS BY SIGNIFICANT INCREASE IN AMOUNTS -- EXCEEDING \$1 BILLION IN ODA COMMITMENTS IN 1972-- CONCENTRATION IN EAST ASIA, MORE FINANCING OF LOCAL COSTS, BEGINNINGS OF UNTYING AND INCREASED DEVELOPMENTAL APPROACH. IN 1972 ODA DISBURSEMENTS INCREASED 20 PERCENT (DOLLAR TERMS), BUT SINCE GNP INCREASED AT FASTER RATE, RATIO OF ODA TO GNP DECLINED FROM 9.23 PERCENT TO 0.21 PERCENT. RE RECONSTRUCTION AID TO VIETNAM, GOJ WOULD PREFER AID PROGRAM WITHIN MULTILATERAL FRAMEWORK AND INCLUDING AID TO BOTH GVN AND DRV. END SUMMARY.

1. JAPANESE POLICIES ON ECONOMIC ASSISTANCE TO LDC' S HAVE BEEN LARGELY EXPRESSED IN FORM OF OBJECTIVES SPELLED OUT BY DEVELOPMENT ASSISTANCE COMMITTEE (DAC) OF OECD. IN PARTICULAR, GOJ ANNOUNCED IN APRIL 1972 ITS ACCEPTANCE OF DAC OBJECTIVE OF 9.7 PERCENT OF GNP IN DEVELOPMENT ASSISTANCE.

2. AMOUNT OF JAPANESE AID HAS INCREASED SIGNIFICANTLY IN ABSOLUTE AND RELATIVE TERMS OVER PAST FEW YEARS IN LINE WITH GROWTH OF JAPANESE ECONOMY. OFFICIAL DEVELOPMENT
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ASSITANCE (ODA) HAS RISEN FROM COMMITMENTS OF \$361 MILLION IN 1966 TO \$1,018 MILLION IN 1972. IT IS HEAVILY CONCENTRATED IN EAST ASIA, WHICH RECEIVES ABOUT 85 PERCENT OF JAPANESE AID. CONCURRENTLY THERE HAS BEEN GENERAL IMPROVEMENT IN CONDITIONS: GOJ HAS SHOWN INCREASING WILLINGNESS TO FINANCE SOME OF LOCAL COSTS; GOJ HAS TAKEN INITIAL STEPS TOWARD AID UNTYING BY EXTENDING UNTIED LOANS TO BURMA , INDONESIA, AND THAILAND; AND IT HAS MADE EFFORTS TO INSTILL MORE DEVELOPMENTAL APPROACH IN EXTENSION OF ITS ASSISTANCE IN USE OF ECONOMIC ASSISTANCE, INCLUDING INCREASED EMPHASIS ON AGRICULTURE, EDUCATION AND MEDICAL SERVICES.

3. IN ADDITION TO BILATERAL AID, JAPAN HAS PAID CONSIDERABLE ATTENTION TO REGIONAL ECONOMIC AND SOCIAL PROGRAMS IN ASIA. THIS HAS INCLUDED PARTICIPATION IN VARIOUS UN BODIES, ASIAN PACIFIC COUNCIL AND MEKONG COORDINATING COMMITTEE; INITIATION IN 1965 OF ANNUAL MINISTERIAL CONFERENCE OF ECONOMIC DEVELOPMENT OF SOUTHEAST ASIA; AND ASSUMPTION OF ROLE OF LARGEST CONTRIBUTOR TO ASIAN DEVELOPMENT BANK.

4. JAPANESE AID PERFORMANCE OVERALL IN 1972 WAS IMPROVEMENT OVER 1971; DISBURSEMENTS INCREASED 20 PERCENT, GRANT AID INCREASED 51 PERCENT, AID WAS UNTIED IN SEVERAL INSTANCES, THERE WAS INCREASE IF LOCAL COST FINANCING, ODA TO MULTILATERAL AGENCIES INCREASED 22 PERCENT AND GEOGRAPHIC DISTRIBUTION OF ODA WAS EXPENDED. HOWEVER, WHILE ABOVE PERCENTAGES RELATE TO DOLLAR AMOUNTS, PERFORMANCE IN TERMS OF YEN LESS FAVORABLE. INCREASE IN ODA WAS LESS THAN RATE OF GNP INCREASE; THUS RATIO OF ODA TO GNP DECLINED FROM 0.23 PERCENT TO 0.21 PERCENT. IN ADDITION, AVERAGE AID TERMS HARDENED SOMEWHAT (JAPAN REMAINS WELL BELOW DAC AVERAGE), AND AID UNTYING PROCEEDED ON INCONSISTENT, CASE BY CASE BASIS.

5. GOJ'S POLICY ON AID TO VIETNAM HAS CONSISTED OF GRANTING HUMANITARIAN AID THROUGH INTERNATIONAL RED CROSS (TO ALL OF INDOCHINA), PROJECT ASSISTANCE ON LIMITED SCALE TO GRV AND CLEAR PREFERENCE FOR

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JAPANESE AID CONTRIBUTIONS TO BE CHANNELLED THROUGH INTERNATIONAL AGENCIES. THIS POLICY OF LIMITED VISIBILITY VIS- A- VIS GRV HAS BEEN DICTATED BY STRONG PRO- DRV ATTITUDE AMONG OPPOSITION PARTIES. WITH RESPECT TO AID FOR RECONSTRUCTION OF VIETNAM, GOJ WOULD CLEARLY PREFER PROVIDING AID WITHIN MULTILATERAL FRAMEWORK AND, BECAUSE OF DOMESTIC POLITICAL

PRESSURES, FINDING SOME SORT OF DOMESTICALLY'
ACCEPTABLE FORMULA FOR PROVIDING AID TO BOTH
GRV AND DRV. S SEARCH FOR APPROPRIATE MODE RENDERED
MORE DIFFICULT BY INABILITY OF IBRD, AT LEAST THUS
FAR, TO ORGANIZE CONSULTATIVE GROUP, AND FIRM DESIRE
OF DRV OBTAIN ANY AID ON BILATERAL BASIS.

6. RECOMMENDATION: WHILE JAPANESE AID PERFORMANCE IN
RECENT PAST HAS SHOWN IMPROVEMENT, IF SUBJECT ARISES
AT SUMMIT, US SHOULD TAKE OCCASION TO PRESS JAPAN FOR
MORE SIZEABLE INCREASES IN ITS AID IN YEN TERMS TO MOVE
IN DIRECTION OF DAC GOAL; TO MOVE TOWARD EASING TERMS OF
ITS LOANS, PREFERABLY ON BASIS OF ADOPTION OF
STANDARDIZATION OF TERMS, IN LIGHT OF GROWING PROBLEM OF
LDC INDEBTEDNESS; TO UNTIE ALL BILATERAL LOAN ASSISTANCE
FOR WORLDWIDE PROCUREMENT; AND TO UNDERTAKE SIZEABLE
AID TO GRV INCLUDING COMMODITY ASSISTANCE.
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